



## 111<sup>th</sup> Congress, Tax Cuts for Small Businesses

### Eight Tax Cuts as Part of Small Business Jobs Act (H.R. 5297)

- ***Zero Taxes on Capital Gains from Key Small Business Investments:*** Under the Recovery Act, 75 percent of capital gains on key small business investments were excluded from taxes. The Senate Small Business Jobs Bill temporarily puts in place for 2010 a provision called for by the President – elimination of *all* capital gains taxes on these investments. *Key investments in 1 million small businesses would be eligible for this tax cut.*
- ***Extension and Expansion of Small Businesses' Ability to Immediately Expense Capital Investments:*** The bill temporarily increases for 2010 and 2011 the amount of investments in new plants or equipment that *4.5 million small businesses* would be eligible to immediately write off to \$500,000 – its highest limit ever – while raising the level of investments at which the write-off phases out to \$2 million.
- ***Extension of 50% Bonus Depreciation:*** The bill extends through 2010 a Recovery Act provision for 50 percent “bonus depreciation” for *2 million businesses, large and small,* providing them with incentives to invest in plants and equipment by accelerating the rate at which they can deduct capital expenditures.
- ***A New Deduction of Health Insurance Costs for Self-Employed:*** The bill would allow *2 million self-employed* to deduct the cost of health insurance in 2010 for themselves and their family members in calculating their self-employment taxes. This provision is estimated to provide over \$1.9 billion in tax cuts for these entrepreneurs.
- ***Tax Relief and Simplification for Cell Phone Deductions:*** The bill would change tax rules so that the use of cell phones can be deducted without burdensome extra documentation – making it easier *for virtually every small business in America* to receive deductions that they are entitled to.
- ***An Increase in the Deduction for Entrepreneurs' Start-Up Expenses:*** The bill would temporarily increase in 2010 the amount of start-up expenditures entrepreneurs can deduct from their taxes from \$5,000 to \$10,000 (with a phase-out threshold of \$60,000 in expenditures), offering an immediate incentive for someone with a new business idea to invest in starting up a new small business.
- ***A Five-Year Carryback Of General Business Credits:*** The bill would allow certain small businesses to “carry back” their general business credits to offset five years of taxes – providing them with an instant tax break – while also allowing these credits to offset the Alternative Minimum Tax, reducing taxes for these small businesses.
- ***Limitations on Penalties for Errors in Tax Reporting That Disproportionately Affect Small Business:*** The bill would change the penalty for failing to report certain tax transactions from a fixed dollar amount – which was criticized for imposing a larger penalty on small businesses – to a percentage of the tax benefits from the transaction.

## **Eight Other Tax Cuts Enacted By 111<sup>th</sup> Congress**

- ***Provide a payroll tax holiday for businesses that hire unemployed workers and an income tax credit of \$1,000 for businesses that retain these employees.*** (According to the Treasury Department, between February and June 2010, businesses had hired 5.6 million workers who had been unemployed for 8 weeks or longer, making those businesses eligible for HIRE Act tax exemptions and credits.) (HIRE Act)
- ***Effective January 1, 2010, provide \$40 billion in tax credits for small businesses to help them offer employee health insurance coverage – if they choose to do so.*** These tax credits will cover a portion of the premium costs for their employees' coverage. More than 4 million small businesses are eligible for these credits. (Affordable Care Act)
- ***Allow businesses to use net operating losses from 2008 or 2009 to offset profits from five previous years,*** up from two years. (Worker, Homeownership and Business Assistance Act)
- ***Spur small business investment by providing enhanced small business expensing,*** doubling the amount small businesses can immediately write off their taxes for capital investments and purchases of new equipment made in 2009. (Recovery Act, PL 111-5) Extends the enhanced small business expensing provisions for investments and purchases made in 2010. (HIRE Act)
- ***Help businesses quickly recover costs of new capital investments by providing increased bonus depreciation for businesses that made investments in new plants and equipment in 2009.*** (Recovery Act)
- ***Spur investments in small businesses by providing an exclusion of 75 percent (up from 50 percent) of capital gains from taxes for investors in small businesses*** who buy stock (in 2009 and 2010) and hold it for more than five years. (Recovery Act)
- ***Reduce the required estimated tax payments for certain small businesses in 2009.*** (Recovery Act)
- ***Provide tax relief for taxable corporations converting into S corporations in 2009 and 2010*** by reducing the built-in gains holding period from 10 years to 7 years (with gains held for the holding period exempt from tax). (Recovery Act)